

**WHO SHALL FILE FORM IA 1120S**

Every corporation doing business in Iowa or deriving income from sources within Iowa shall make and file an Iowa corporation return. S corporations, interest charge domestic international sales corporations and foreign sales corporations should file form IA 1120S. If the S corporation is a financial institution, it must also file form IA 1120F.

WHEN AND WHERE TO FILE

The IA 1120S is due on or before the last day of the fourth month after the close of the taxable year. An automatic extension of up to six months to file will be granted if at least 90% of the tax due is paid by the due date of the return. Mail to CORPORATION TAX RETURN PROCESSING, IOWA DEPARTMENT OF REVENUE, P.O. BOX 10468, DES MOINES IA 50306-0468.

WHO SHALL SIGN A RETURN

The corporation return must be signed by the president or other duly authorized officer.

PREPARER'S ID NUMBER Enter preparer's SSN, FEIN, or PTIN.

SPECIFIC INFORMATION

Box A Enter the Federal Employer Identification Number of the corporation.

Box B Enter the business code number provided by the Internal Revenue Service for the specific industry group corresponding to the corporation's primary business activity.

Box C Enter the number of the (Iowa) county that is the commercial domicile or principle place of business of this corporation. Enter 00 if the commercial domicile or principle place of business is not located in the State of Iowa.

SCHEDULE S: This schedule is to show those modifications or adjustments to Federal Schedule K income as required by section 53.5 through 53.21 of the Iowa Administrative Code and to show the total modified net income from the S corporation.

Line 1 Net together items of income or loss on the Federal Schedule K and those deductions on the Federal Schedule K that do not qualify as itemized deductions and enter that net figure on this line.

Line 2 Enter the amount of interest and dividends from foreign securities, from securities of state and other political subdivisions, and from regulated investment companies exempt from Federal income tax.

Line 3 Enter total of other additions to Iowa income which do not appear on your Federal return and attach schedule. Iowa did not adopt the 30 % Federal "Bonus Depreciation" provisions for assets placed in service on or after September 11, 2001, but before May 6, 2003; therefore, an adjustment must be computed on form IA 4562A and entered on this line. Also include the amount of IRC section 613 percentage depletion of an oil, gas, or geothermal well which exceeds the cost depletion amount determined under IRC section 611.

Line 4 Add lines 2 and 3.

Line 5 Enter 50% of Federal income tax paid or accrued, including Federal tax paid on built-in gains or passive investment income.

Line 6 Enter the amount of interest and dividends from Federal securities as shown on your Federal return.

Line 7 Enter total of other reductions from your Federal income which are not taxable for Iowa purposes and attach schedule.

Line 8 Total lines 5, 6, and 7.

Line 9 Subtract line 8 from line 4. This can result in either a positive or a negative amount.

Line 10 Add line 9 to line 1.

Line 11 S corporations which are subject to tax on built-in gains under Section 1374 of the Internal Revenue Code or passive investment income under Section 1375 of the Internal Revenue Code are subject to Iowa corporation income tax on this income to the extent received from business carried on in this state or from sources in this state.

The starting point for computing the Iowa tax on built-in gains or passive investment income is the amount of built-in gains or passive investment income subject to Federal tax after considering the Federal income limitation. No adjustment is made to the preceding amounts for either 50 percent of Federal income tax or Iowa corporation income tax deducted in computing the Federal net income of the S corporation. The allocation and apportionment rules of chapter 701—54 apply if the S corporation is carrying on business within and without the state of Iowa. Any net operating loss carryforward arising in a taxable year for which the corporation was a C corporation shall be allowed as a deduction against the net recognized built-in gain or passive investment income of the S corporation for the taxable year. For purposes of determining the amount of any such loss which may be carried to any of the 15 subsequent taxable years (20 years for tax years beginning after August 5, 1997) after the year of the net operating loss, the amount of the net recognized built-in gain or passive investment income shall be treated as taxable income. The amount of Iowa taxable built-in gains or passive investment income is subject to tax at the same rates as C corporation income. (6%, 8%, 10%, 12%).

Under \$25,000,	then multiply by 6%.
\$25,000 to \$100,000,	then multiply by 8% and subtract \$500.
\$100,000 to \$250,000,	then multiply by 10% and subtract \$2,500.
Over \$250,000,	then multiply by 12% and subtract \$7,500.

Except for estimated and other advance tax payments, and any credit carryforward under Iowa Code section 422.33 arising in a taxable year for which the corporation was a C corporation, no credits shall be allowed against the built-in gains or passive investment income tax.

If a refund is due after estimated payments exceed the tax due, request a refund by writing a letter and sending it to: Iowa Department of Revenue, PO Box 10456, Des Moines IA 50306-0456.

SCHEDULE K: This schedule is to show each shareholder's share of modifications of all-source income and of apportioned income. You must provide complete information for each member in an acceptable format. For your convenience, schedule 41-034 is provided on our Web site.

Column 1 Enter the name and address of each shareholder.

Column 2 Enter the letter R if the shareholder is an Iowa resident or the letter N if the shareholder is not an Iowa resident.

Column 3 Enter the correct Social Security Number or Federal I.D. Number of each shareholder.

Column 4 Enter each shareholder's percentage of ownership.

Column 5 Multiply line 9 of Schedule S by the shareholder's percent of ownership in the corporation and enter the result here.

Column 6 Multiply line 10 of Schedule S by the shareholder's percent of ownership in the corporation and enter the result here.

Column 7 For nonresidents multiply the figure in column 6 by the corporation's single factor business activity ratio and enter here. For Iowa residents enter the same figure that is in column 6 here. If the corporation conducts its business wholly within Iowa, enter the same figure in column 6 for all shareholders.

SCHEDULE C - BUSINESS ACTIVITY RATIO

Complete all applicable lines. **Dividends are net of special deductions.**

Business income means income which arises from the corporation's unitary trade or business, a part of which is conducted within Iowa. Business income shall be apportioned to Iowa by means of the business activity ratio. Investment income may at the taxpayer's election be included in the computation of the business activity ratio. The taxpayer will have elected whether to include investment income in the computation of the business activity ratio for that and all subsequent years. Consequently, that year and for subsequent years total investment income which is determined to be business income will be included in the numerator as follows:

- (1) Accounts receivable interest is to be included in the numerator to the extent allocable to Iowa.
- (2) Other interest, net dividends, capital and ordinary gains, and royalties from intangibles shall be included in the numerator if the commercial domicile is in Iowa.
- (3) All investment income that is business income, including capital gains or losses, shall be included in the computation of the business activity ratio if the investment income is derived from intangible property that has become an integral part of some business activity occurring regularly in or outside of Iowa. (See Iowa Rule 54.2(3) for clarification.)
- (4) Capital and ordinary gains or losses, or rent and royalties from real property shall be included in the numerator if the property is located in Iowa.

For a taxpayer first apportioning income, the inclusion of investment income determined to be business income in the business activity ratio of that year's initial return will be binding on all subsequent years' returns. The election to include business investment income in the business activity ratio can later be changed only with permission of the director of the Iowa Department of Revenue.

IA 1120S—SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULES

All corporations are required to attach a copy of their Federal return. If the lines on the return do not provide sufficient space, attach additional schedules.

RESIDENT AND NONRESIDENT SHAREHOLDERS

Iowa resident and nonresident shareholders required to file IA 1040 individual income tax returns will report all Federal K-1 items of income on their IA 1040 Individual Income Tax return just as those Federal K-1 items are reported on their Federal return. Each shareholder's share of modifications, shown in column five of the Iowa Schedule K, to this K-1 income or loss will be entered on line 14 of the IA 1040 if a positive amount or on line 24 of the IA 1040 if a negative amount. The S corporation must notify all shareholders of any all-source adjustments.

IOWA SCHEDULE K-1 TO NONRESIDENT SHAREHOLDER

All items of Federal K-1 income that are a part of the Federal Adjusted Gross income and any Iowa Schedule K-1 modifications to that K-1 income must be apportioned to Iowa using a single factor business activity ratio calculated the same as for regular corporations. Use the

Iowa Schedule K-1 for nonresident shareholders for this purpose. The Iowa Business Activity Ratio (column 2) must be applied equally to **each** line item in column 1; no method of "separate accounting" is allowed. Attach a copy to the IA 1120S and provide a copy to each nonresident shareholder.

SCHEDULE C: SINGLE FACTOR BUSINESS ACTIVITY RATIO

If an S corporation is doing business wholly within Iowa, then this ratio will be 100% to Iowa and all of the S corporation income received by a nonresident shareholder is taxable to Iowa. If the S corporation is doing business both within and without Iowa, then the S corporation can apportion the S corporation income received by the nonresident shareholders. This single factor business activity ratio would be calculated in the same manner as for regular corporations and as such, all income would be considered business income unless conclusively proved to the contrary. If the S corporation is doing business within and without Iowa, it should complete Schedule C. If the S corporation does business within and without Iowa, the business activity ratio (Schedule C) must be provided to each Iowa resident shareholder for purposes of computing the resident shareholder credit, if they elect that option.

COMPOSITE FILING

S corporations may elect by the due date to file an Iowa individual income composite tax return (IA 1040C) and pay any tax due on behalf of nonresident shareholders. See Chapter 48 of the Iowa Administrative Rules for further information or contact the department at the number listed at the bottom of the page.

MOTOR VEHICLE FUEL TAX CREDIT

This credit is not available to the S corporation. However, this credit may be passed through to the shareholders of an S corporation. Compute the credit on IA 4136 and attach a schedule showing the allocation among the shareholders. Each shareholder must file an IA 4136 with the individual income tax return as well as the allocation schedule. This credit may not be claimed if the taxpayer held a valid motor fuel refund permit during the tax year, unless the permit was cancelled within the first 30 days of the tax year.

TAX CREDITS

Shareholders may be qualified for various tax credits. Attach IA148 Tax Credits Schedule.

AMENDED RETURNS

If an amended Federal return was filed for a prior period, the taxpayer must file an amended Iowa return. Use IA 1120S to file amended returns. The IA 1120S is not to be used for sales tax or withholding credit.

SOCIAL SECURITY NUMBERS

Section 422.21 Iowa Code, requires that the Social Security Numbers of all shareholders be provided on this form. The numbers are used to aid in verifying that shareholders have filed their individual income tax returns.

CONFIDENTIALITY AND FAIR INFORMATION PRACTICES NOTICE

Information from this return may be made available to the Internal Revenue Service or to tax officials of another state under a tax information exchange program. Except as allowed by law, information on this return cannot be released to anyone who is not an Iowa Department of Revenue or Internal Revenue Service employee. Any Department of Revenue employee who discloses tax information without legal authority is subject to a fine of \$1,000.

FOR INFORMATION

Call 1-800-367-3388 (Iowa, Omaha, Rock Island-Moline) or 515/281-3114 (Des Moines, out-of-state) or e-mail idr@iowa.gov